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SIPDIS

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SUBJECT: BUSINESS AS USUAL AT ALITALIA: ZANICHELLI BECOMES
NEW MANAGING DIRECTOR

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ACCORDINGLY. NOT FOR INTERNET DISTRIBUTION.

1. (U) FRANCESCO MENGGOZZI RESIGNED AS ALITALIA'S MANAGING
DIRECTOR ON FEBRUARY 28, AND WAS REPLACED BY MARCO
ZANICHELLI, FORMER DIRECTOR GENERAL AND A MEMBER OF
ALITALIA'S BOARD OF DIRECTORS. ZANICHELLI WILL BE ASSISTED
BY TWO GENERAL DIRECTORS: GLENN HOUEASTAIN, AN AMERICAN
CITIZEN FORMERLY OF CONTINENTAL AIRLINES, AND LUCA EGIDI,
ALITALIA'S FINANCIAL MANAGER.

2. (SBU) FRANCESCO MENGGOZZI, WHO HAS BEEN MANAGING DIRECTOR
SINCE EARLY 2001, HAD LOST POPULAR AND POLITICAL SUPPORT
BECAUSE OF HIS UNPOPULAR PLAN FOR REFORMING ALITALIA TO MAKE
IT PROFITABLE, A PRECONDITION FOR PRIVATIZING THE LARGELY
STATE-OWNED AIRLINE. MENGGOZZI HAD PROPOSED CUTTING
ALITALIA'S BLOATED AND INEFFICIENT LABOR FORCE BY LAYING OFF
1,548 EMPLOYEES AND CONTRACTING OUT 1,200 OTHER POSITIONS.
THE MANY STRIKES BY ALITALIA EMPLOYEES IN PROTEST OF THIS
PLAN HAD COST THE AIRLINE HUNDREDS OF THOUSANDS OF EUROS.
THE RESULTING STANDOFF LED PRIME MINISTER BERLUSCONI TO ASK
FOR A NEW PLAN FOR RESTRUCTURING THE AIRLINE, IN WHICH THE
ITALIAN GOVERNMENT IS A MAJOR STOCKHOLDER.

3. (SBU) WHILE MENGGOZZI WAS COMMITTED TO THE SWIFT
PRIVATIZATION OF ALITALIA, PROBABLY VIA A MERGER WITH AIR
FRANCE AND KLM, ZANICHELLI HAS STATED THAT ALITALIA NEEDS A
CAPITAL INFUSION AND MUST BE MADE PROFITABLE BEFORE ANY (EVEN
PARTIAL) PRIVATIZATION. ZANICHELLI PREFERS TO SEE THE
PROCESS DRIVEN NOT BY COST REDUCTIONS (SUCH AS LAYOFFS,) BUT
RATHER BY SUBSTANTIAL INCREASES IN ALITALIA'S FINANCIAL
ASSETS AND COMMERCIAL PRESENCE. HE HAS CALLED FOR THE GOI TO
QUICKLY "INVEST" AT LEAST 600 MILLION EUROS TO CONVERT
ALITALIA'S LONG-RANGE FLEET OF AIRCRAFT TO A MEDIUM-RANGE
FLEET AND TO OPEN NEW ROUTES.

4. (SBU) MENGGOZZI'S EFFORTS TO RESTRUCTURE ALITALIA -- BY
ELIMINATING EXCESS STAFF AND COSTS AND THEN SWIFTLY
PRIVATIZING THE FIRM -- WERE SUPPORTED BY TRANSPORT MINISTER
LUNARDI AND FINANCE MINISTER TREMONTI, BOTH OF WHOM ARE
TECHNOCRATS RATHER THAN PROFESSIONAL POLITICIANS. THIS PLAN
WOULD HAVE SAVED THE ITALIAN GOVERNMENT MILLIONS OF EUROS
ANNUALLY. TREMONTI AND BRUNO TABACCI, CHAIRMAN OF THE
CHAMBER OF DEPUTIES COMMITTEE ON PRODUCTIVE ACTIVITIES, HAD
ARGUED FOR AN EVEN TOUGHER APPROACH. THEY PROPOSED
APPOINTING AN EXTERNAL COMMISSIONER TO RESTRUCTURE ALITALIA
AND PRIVATIZE IT AS QUICKLY AS POSSIBLE.

5. (SBU) DEPUTY PRIME MINISTER GIANFRANCO FINI AND UNDER
SECRETARY FOR THE COUNCIL OF MINISTERS GIANNI LETTA TOOK A

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DIFFERENT APPROACH. FINI MADE THE CASE THAT THE GOI COULD NOT
WITHSTAND THE INEVITABLE CLASH WITH LABOR UNIONS THAT WOULD
RESULT FROM THE LAYOFF OF 3,000 TO 5,000 EMPLOYEES OUT OF A
TOTAL ALITALIA LABOR FORCE OF 20,000. HE ARGUED THAT IT WAS
BETTER TO SAVE THESE JOBS AND END THE ALITALIA LABOR DISPUTE
ON THE EVE OF EU PARLIAMENTARY ELECTIONS.

6. (SBU) COMMENT: ON THE ALITALIA ISSUE, THE PRIME MINISTER
AND HIS CABINET WERE FACED WITH A CLEAR CHOICE BETWEEN
FREE-MARKET, COMPETITIVE POLICIES (WITH LABOR PROTESTS) OR
BUSINESS AS USUAL. IN THE FACE OF THE UPCOMING ELECTIONS,
THE DECISION WAS MADE TO AVOID CONFLICT. AS A CONSEQUENCE,
THE BLOATED, INEFFICIENT ALITALIA WILL CONTINUE TO BE A DRAIN
ON THE ITALIAN GOVERNMENT FOR THE FORESEEABLE FUTURE.
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